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EXECUTIVE SECRETARY

TENNESSEE REGULATORY AUTHORITY

**IN RE: JOINT PETITION OF CROCKETT TELEPHONE
COMPANY, INC., PEOPLES TELEPHONE COMPANY, WEST
TENNESSEE TELEPHONE COMPANY, INC., AND THE
CONSUMER ADVOCATE DIVISION OF THE OFFICE OF THE
ATTORNEY GENERAL FOR THE APPROVAL AND
IMPLEMENTATION OF EARNINGS REVIEW SETTLEMENT
DOCKET NO. 99-00995**

**DIRECT TESTIMONY
OF
ROBERT T. BUCKNER**

September 7, 2001

1 **Q. Please state your name for the record.**

2 A. My name is Robert T. Buckner (“Terry”).

3

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by the Consumer Advocate and Protection Divi-
6 sion (“CAPD”) in the Office of the Attorney General for the State of
7 Tennessee as the Coordinator of Regulatory Analysts.

8

9 **Q. How long have you been employed in the utility industry?**

10 A. Approximately twenty four years. Before my employment with
11 the Attorney General, I was employed with the Tennessee Public
12 Service Commission (“Commission”) as a financial analyst for
13 approximately six years. Prior to my employment with the
14 Commission, I was employed by Telephone and Data Systems
15 (“TDS”) for eight years and the First Utility District of Knox County
16 for three years.

17

18 **Q. What is your educational background and what degrees do you**
19 **hold?**

20 A. I have a Bachelors degree in Business Administration from the
21 University of Tennessee, Knoxville with a major in Accounting. I am
22 also a Tennessee Certified Public Accountant and a member of the

1 American Institute of Certified Public Accountants. Additional
2 education background with respect to my qualifications is provided in
3 Exhibit No. 1 (Attachment A).

4
5 **Q. Would you briefly describe your responsibilities as a Regulatory**
6 **Analyst since your employment with the CAPD?**

7 A. I prepared testimony and exhibits as an employee with the
8 Commission before becoming a member of the CAPD. My
9 responsibilities have not changed significantly since becoming
10 employed with the CAPD.

11

12 **Q. What is the purpose of your testimony before the Tennessee**
13 **Regulatory Authority (“TRA”)?**

14 A. The purpose of my testimony is to address the two issues as
15 outlined in the Pre-Hearing Officer’s Order dated August 24, 2001.
16 In the Order, the two outlined issues are: (a) Whether the amount of
17 over-earnings identified in the Settlement Agreement for the TEC
18 Companies for the years 1999-2001 is correct; and (b) How and to
19 what extent the rate design described in the Settlement Agreement
20 should be amended to adjust for the over-earnings identified therein.

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22

1 **Q. Please address issue (a) Whether the amount of over-earnings**
2 **identified in the Settlement Agreement for the TEC Companies**
3 **for the years 1999-2001 is correct.**

4 A. First of all, a history of the process leading up to the Settlement
5 Agreement is appropriate and helpful in coming to a decision on this
6 issue. The Telephone Electronics Corporation, Inc. ("TEC")
7 Companies are three local exchange companies: Crockett Telephone
8 Company, Peoples Telephone Company and West Tennessee
9 Telephone Company operating in west Tennessee. For the two and
10 one half years ending December 31, 1993, the earnings of the TEC
11 Companies were reduced by \$1.7 million in Tennessee Public Service
12 Commission ("TPSC") Dockets #91-08210, #91-08211, and #91-
13 08209. In TPSC Docket #93-06830, the earnings of the TEC
14 Companies were reduced by \$504,410 for the year 1994 through
15 increased amortization expense and provision of fringe-area county
16 wide calling. Additionally, the \$3.00 per month local service credit
17 for Crockett Telephone Company was continued from the previous
18 Docket. On December 28, 1994, the TPSC denied the Consumer
19 Advocate's petition for a Show Cause Proceeding in Docket #94-
20 03949, but the \$3.00 per month local service credit for Crockett
21 Telephone Company was continued once more. In TRA Docket #96-
22 00774, a settlement agreement reduced the earnings of the TEC

1 Companies by \$4.9 million for the years 1996-1998. Therefore, from
2 a historical perspective, the current settlement agreement to reduce
3 the earnings of the TEC Companies by \$6.4 million for the years
4 1999-2001 is unprecedented. Secondly, the current settlement
5 agreement before the TRA in this docket culminated an investigation
6 which originated on May 22, 1998. Over an eighteen month period,
7 discovery requests, workpapers, forecasts, exhibits and negotiations
8 produced the settlement agreement, which was submitted to the TRA
9 on December 30, 1999. Significant in this lengthy process are
10 preparation of forecasts and the negotiations between the two parties.
11 This settlement agreement was the result of negotiations and
12 forecasted earnings. Consequently, the agreement may not be correct
13 in the minds of any party in this proceeding, but the agreeing parties
14 believe that the settlement is just and reasonable and was based upon
15 known and reasonably anticipated changes. Further, to mitigate the
16 idea of a correct settlement, *Accounting for Public Utilities* states the
17 following:

18 While provisions in rates to offset attrition do not
19 (and should not) guarantee a targeted earnings
20 result, the absence of such provisions, in the face
21 of attritional conditions, will almost always
22 guarantee a failure to hit the target. Rate
23 provisions that anticipate reasonably ascertainable
24 and highly probable cost levels during the actual
25 periods of rate use are essential to the successful

1 pursuit of setting prospective rates to recover
2 prospective costs.¹
3
4

5 **Q. Please address issue (b) How and to what extent the rate design**
6 **described in the Settlement Agreement should be amended to**
7 **adjust for the over-earnings identified therein.**

8 A. As a matter of principle, the CAPD has never agreed to amend
9 the rate design as proposed in the Settlement Agreement. As a
10 practical matter, however, amendment of some of the items within the
11 rate design is necessary due to the protracted length of the review
12 process. Given these circumstances, it is recommended that no
13 change occurs in the acceleration of certain depreciation and
14 amortization expenses for 1999, 2000, and 2001. Appropriate
15 accounting processes can care for the resolution of this item.
16 Although not mentioned, the dialing parity impacts of the rate design
17 should have been realized in the appropriate years. It is
18 recommended that the amounts due for the elimination of intra-
19 company toll, for increasing minutes for the Contiguous County
20 Calling Plan and for waiver of nonrecurring charges be done
21 prospectively in the years 2002 and 2003. It is recommended that the

¹Robert L. Hahne and Gregory E. Aliff, *Accounting for Public Utilities* [New York: November 1993], p. 8-4.

1 total credits for residential and business customers due in 2000 be
2 applied to the customers bills no later than 30 days after the TRA
3 Order in this docket. The TEC Companies annual cash flow from
4 operating activities and existing cash is sufficient to sustain the
5 credits due customers. It would be appropriate for the ratepayers to
6 realize some measure of benefit of the excess earnings from this
7 attrition period in the actual attrition period. The monthly credits
8 originally scheduled for 2001 can be applied monthly in the year
9 2002.

10 Finally, any amendment to the rate design for the benefit of
11 AT&T should be quashed. Any part of the disposition of excess
12 earnings from this settlement devoted to access charge reductions in
13 this proceeding would not benefit TEC's normal residential and
14 business customers nor any like-kind customer in Tennessee. This is
15 especially true in light of the recent de-tariffing of AT&T and their
16 decision to raise long distance rates. AT&T should bear the risk and
17 the reward of a competitive marketplace. No regulated local
18 exchange carrier's revenue stream should be siphoned to benefit a
19 non-regulated inter-exchange carrier and thus jeopardize universal
20 service.

1 **Q. Does this conclude your testimony?**

2 **A. Yes, it does.**

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Attachment A

Robert T. Buckner (Terry)
Coordinator of Regulatory Analysts
Office of the Attorney General for the State of Tennessee
Consumer Advocate and Protection Division

Additional Education Background:

Micro-Computer Training, **University of Wisconsin, Madison**
Cost Separations School, **United States Telephone Association, San Diego**
Rate Case School, **Arthur Andersen LLP, Chicago**
Telecommunications Conference, **University of Georgia, Athens**
NARUC Conference, **Michigan State University, Lansing**
Management Training Seminar, **Vanderbilt University**
Interstate Access Settlements, **National Exchange Carrier Association**
SEARUC Conferences, **Birmingham, AL. and Charleston, S.C.**
Telephone Plant Accounting Program, **Ernst and Young LLP, Atlanta**

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DOCKET NO. 99-00995

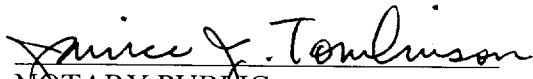
AFFIDAVIT

I, Robert T. Buckner, Coordinator of Regulatory Analysts, for the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.



Robert T. Buckner

Sworn to and subscribed before me
this 6th day of September, 2001.



NOTARY PUBLIC

My commission expires: 1/25/2003